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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 1528
INFO RUEHBO/AMEMBASSY BOGOTA 7827
RUEHLP/AMEMBASSY LA PAZ JUL LIMA 1063
RUEHQT/AMEMBASSY QUITO 2877
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

C O N F I D E N T I A L CARACAS 001042

SIPDIS

HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MEWENS
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: DECL: 07/23/2018

TAGS: [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: STRUCTURED NOTES RESOLUTIONS: TARGETED AT VARGAS?

REF: A. CARACAS 930
[1](#)B. CARACAS 998
[1](#)C. CARACAS 190
[1](#)D. CARACAS 647
[1](#)E. 2007 CARACAS 2330

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: Our contacts point to Banco Occidental de Descuento (BOD) president Victor Vargas as the primary target of recent BRV resolutions ordering banks to divest themselves of structured notes within 90 days (ref A). They claim the regulatory action was taken following a business dispute between Vargas and an influential advisor to the Ministry of Finance. The approach SUDEBAN, the BRV's banking regulator, will take to implement the resolution remains unclear. Nelson Mezerhane (strictly protect throughout), president of Banco Federal, said he had asked for three years to divest his bank of its notes but SUDEBAN had not approved the request to date. Mezerhane, a prominent BRV critic, claimed the BRV was using the structured notes issue to mount a squeeze and smear campaign against his bank. End summary.

Going After Vargas?

[1](#)2. (C) Over the past several weeks, Econcouns and Econoff talked with a number of contacts with intimate knowledge of the structured notes saga, including HSBC country representative Carlos Solarzano (who sold notes to several local banks); Nelson Mezerhane; BanCaribe Executive President Juan Carlos Dao; SUDEBAN's head Maria Elena Fumero (ref B); and economist Orlando Ochoa (strictly protect all throughout). Solarzano, Mezerhane, and Ochoa each independently pointed to BOD president Victor Vargas as the target of the structured notes resolutions. They each claimed a dispute arose between Vargas and an influential individual linked to the BRV over the cut each received from a business deal, possibly one involving dollar-denominated assets sold to banks by the BRV (ref C). (Note: The BRV sold these assets to favored banks at a discount and, many observers claim, in return for kickbacks. Vargas, who is said to have profited from these deals, is a banker whose star has risen greatly during Chavez' presidency. See ref A for an explanation of how the structured notes resolutions might hurt banks like BOD that owned large amounts of them. End note.) Ochoa identified the individual in question as

Moris Beracha, a stockbroker and an advisor to the Ministry of Finance.

Mezerhane: Target of Opportunity?

¶3. (C) Mezerhane, whose bank appears to have acquired structured notes greater in value than any other bank except perhaps BOD, claimed he was a target of opportunity in an operation initially aimed at Vargas. Mezerhane said Banco Federal would lose 25 to 30 percent of the value of the dollar assets underlying the structured notes if forced to sell the notes in the 90 day time period set forward in the resolutions. Mezerhane, a prominent BRV critic and minority shareholder of opposition cable station Globovision, suggested that the BRV saw an opportunity to tie up his liquidity in advance of the November regional elections (i.e., "just when opposition politicians are knocking on my door asking for money").

¶4. (C) Given the "significance" of the loss should he be forced to sell in the appointed timeframe, Mezerhane said he had asked SUDEBAN for three years to undertake the divestment. SUDEBAN had not given a definitive answer to his request, but he doubted it would be approved. In case he was forced to unload the notes quickly, Mezerhane said he would liquidate half but try to construct a deal involving options with other companies that would, in essence, allow him to keep half of the underlying assets. Mezerhane claimed SUDEBAN had circulated a report falsely stating that one of Banco Federal's structured notes matured in 2060; instead, the note matured in late 2008 but the legal entity set up by the foreign financial institution to handle the transaction expired in 2060. Mezerhane suspected that SUDEBAN had not made a mistake, as they claimed when he called them on it, but rather had acted with the "bad intention" of trying to associate his bank with a potentially fraudulent operation. (Note: Fumero alleged to us that one of the notes expired in 2060, but she did not name the associated bank. End note.)

BanCaribe: Quick to Get Out

¶5. (C) BanCaribe, a well-reputed medium sized bank, has already sold its structured note, according to Dao, and will book any losses in its profit and loss statement for the first half of 2008. BanCaribe acquired the note, which Dao said had been backed by USD 20 million in underlying assets, to provide greater collateral for increased lines of credit with foreign banks related to import transactions (see refs D and E for a description of the BRV's currency control procedures and associated problems for banks). Dao noted that each bank's situation was different, with other banks acquiring the notes for purposes of investment or speculation, or possibly to deal with the impact of bringing certain investments (known as "inversiones cedidas"; in this case, dollar-denominated) onto their balance sheets in accordance with BRV regulations. The ultimate impact on the financial sector, Dao continued, would be determined by the agreements reached between the individual banks and SUDEBAN and by the willingness of shareholders to inject more capital where necessary.

Comment

¶6. (C) The fact that Solarzano, Mezerhane, and Ochoa, each of whom has a different perspective on the BRV and the financial sector, each independently gave the same explanation for why the BRV issued the structured notes resolutions suggests to us that Victor Vargas was indeed the initial target. All indications are that the saga will play out on a bank-by-bank basis, given the different situations of each of the banks involved and SUDEBAN's individualized approach. Several of our contacts think the three biggest

banks involved - Banesco, BOD, and Banco Federal - are not at risk given either their financial capacity to handle their potential losses (Banesco) or their owners' political ability to fight back (BOD and Banco Federal). Ochoa, on the other hand, believes that BOD and Banco Federal are fundamentally unhealthy banks with other problems concealed on their balance sheets. End comment.

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